



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2766  
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY  
AUDITOR-CONTROLLER

November 20, 2003

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

**ADOPTION OF GUIDELINES FOR THE LAC+USC  
MEDICAL CENTER ACCUMULATIVE CAPITAL OUTLAY FUND  
(3-VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD:**

1. Adopt a policy that all appropriation requests submitted to the Board for the LAC+USC Medical Center Accumulative Capital Outlay Fund must also include itemized equipment listings that support the amount recommended for spending. The policy would also require non-equipment spending proposals also be itemized in the event that the Board expands the use of the ACO Fund to permit expenditures for services and supplies or other items not defined as equipment. Significant changes to the itemized spending proposal (where a line item changes by \$250,000 or greater) would require Board approval.
2. Instruct the Department of Health Services to file an annual financial report to the Board (in conjunction with year-end closing) that indicates the ACO Fund's beginning fund balance, new revenues, transfers from other funds, itemized expenditures, and ending fund balance. The amount of ending fund balance that has been encumbered should also be disclosed and itemized.

**PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

On September 16, 2003, your Board instructed the Auditor-Controller to report back on existing safeguards related to the newly established LAC+USC Medical Center Accumulative Capital Outlay Fund (ACO Fund). We were also directed to identify recommended actions that would strengthen the oversight and monitoring of this account.

### Implementation of Strategic Plan Goals

This action is consistent with the County's Strategic Plan goal of Fiscal Responsibility.

### **FISCAL IMPACT/FINANCING**

No fiscal impact.

### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

#### Background and Existing Budget Controls

On September 16, 2003, your Board authorized the transfer of \$105 million into the ACO Fund and established a corresponding designation as part of the final accounting adjustments for 2002-2003. For the 2003-2004 County Budget, the Board used the same \$105 million to establish a Provisional Financing Uses appropriation in the ACO Fund.

In accordance with County policy, amounts placed in Provisional Financing Uses are not available for spending without further Board approval. It should be noted that amounts placed in a designation account are similarly restricted and cannot be spent without a Board-approved budget adjustment.

The County ordinance that established the ACO Fund currently limits its use to the replacement of medical equipment related to the LAC+USC Medical Center replacement project. The Board has directed that this ordinance be expanded to include other expenditures associated with the replacement project. Recommended changes to the ordinance are in progress and will be brought back to the Board for consideration and approval.

#### Proposed Budget Controls and Financial Reporting

Equipment purchases within each County budget unit are budgeted at a single aggregate amount, regardless of the number of items to be purchased. Existing County policies require departments to provide equipment details at the time they submit budget requests to the CAO. However, such details are not included with the Proposed County Budget, Final Budget, or other budgetary changes that require Board approval. To strengthen the oversight of ACO Fund expenditures, we recommend that detailed equipment listings accompany all budget requests submitted to the Board for the ACO Fund.

If the definition of the ACO Fund is expanded to include non-equipment items, such as moving costs, other services, or supplies, these items would be budgeted under the line item "Services and Supplies." We recommend that this budget, if adopted, be supported by details similar to the itemized equipment budget.

To implement these changes to County budget policies, itemized details would be required to support recommended spending in the ACO Fund at the time of the Proposed and Final County Budgets. After the Final Budget is adopted, recommended actions to increase (or decrease) spending in the ACO Fund should also be accompanied by itemized listings. Significant changes to the itemized listings (where a line item changes by \$250,000 or greater) would require Board approval. The \$250,000 amount is similar to an existing requirement for all proposed major equipment purchases.

We also recommend that the Department of Health Services file an annual financial report for this Fund. This report would be prepared and submitted in conjunction with other year-end closing activities. The report should consist of the beginning fund balance, new revenues, transfers from other funds, itemized expenditures, and ending fund balance. The amount of ending fund balance that has been encumbered should also be disclosed and itemized.

## **CONCLUSION**

The proposed recommendations will provide your Board with more detailed information about the types of equipment items and any other authorized expenditures associated with the replacement project.

Respectfully submitted,

J. Tyler McCauley  
Auditor-Controller

JTM:JN  
Admin/lac+usc board letter-rev

c: David E. Janssen  
Violet Varona-Lukens  
Thomas L. Garthwaite